



The **Opportunity** Agenda



## **While We Wait for Housing Finance Reform Legislation —Let's Reform Housing Finance**

By  
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On behalf of

The Opportunity Agenda  
National Fair Housing Alliance and  
The National Association of Real Estate Brokers

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After the collapse of the housing market, numerous proposals to restructure and restore our damaged housing finance system have been advanced, including many that attempt to fix glaring weaknesses in mortgage lending in the years leading up to the recent collapse of the housing market. Fundamental problems included, for example, the implicit federal guarantee of home mortgages that enabled private financial firms to pocket excessive earnings while leaving the American taxpayers to pay the costly tab for the bailouts that were required following the crash of the subprime lending industry.

The elimination of Fannie Mae and Freddie Mac is at the core of almost every major proposal that aims at revamping the mortgage finance system. However, the reality is that housing finance reform that requires the wholesale replacement of the GSEs will take many years to be approved and implemented. A five-year time horizon is a reasonable estimate even under optimistic estimates.

The conventional housing market cannot wait for the lengthy legislative process to run its course. There are continuing significant problems that are unnecessarily limiting access to homeownership. Conventional lending is all but closed to people of color, low- and moderate-income households, and first-time homebuyers. Indeed, more than 70 percent of GSE activity is refinancing existing loans. While refinancing helps families lower their long-term cost of borrowing and adds profits to the bottom line for financial firms,

refinancing does not expand homeownership. Lack of access to affordable home loans not only undermines asset building opportunities for America's families but also contributes to a continuing drag on the U.S. economy.

American homeowners, however, are not at the mercy of an increasingly partisan and ineffective legislature. A review of the principal goals for a new housing finance system reveals that many of the major goals of restructuring the system could be achieved through administrative actions. Specifically, legislative action to achieve these aims is not required. Therefore, there is no reason to leave the housing market in limbo as we wait to secure the major goals of a dramatically improved home mortgage market. At a minimum, administrative changes that can affect significant change should be pursued now as an interim step toward housing finance reform.

The matrix below highlights ten key goals of housing finance reform and the type of action—administrative versus legislative--required to advance these goals. These key goals draw heavily on work pursued as part of the [Home for Good Campaign](#), a multi-pronged, multi-year effort launched by the National Association of La Raza and The Opportunity Agenda and joined by a broad coalition of more than 30 nonprofit housing, civil rights and research organizations including the National Urban League, National CAPACD, Kirwan Institute of The Ohio State University, Center for Responsible Lending, UNC Center for Community Capital, and the National Fair Housing Alliance. The goals also draw on [recent testimony](#) by Julia Gordon, Director of Housing Finance and Policy for the Center for American Progress, before the U.S. Senate Committee for Banking, Housing and Urban Affairs. Finally, the goals reflect key principles for secondary market reform that were developed by the nation's leading civil rights organizations.

The key goals also demonstrate the importance and power of the leadership at the Federal Housing Finance Agency (FHFA) and Department of Housing and Urban Development, the regulators for Fannie Mae and Freddie Mac. They further highlight the fact that new leadership is needed at the FHFA that is focused on the recovery of the home mortgage market and the reestablishment of homeownership as a cornerstone of the American Dream. Making access to homeownership the priority at FHFA would greatly lift the economic fortunes of our nation's families, communities, and overall economy.

## Ten Key Goals to Achieve Housing Finance Reform and the Required Administrative or Legislative Actions

Key Goal	Required Administrative Action	Required Legislative Action
<p>1. Provide a liquid and reliable source of credit for housing in all geographies, including urban, suburban, and rural locations, to all credit-worthy borrowers, including low-and moderate income families and families of color, as well as diverse products to accommodate a wide range of housing types, including housing co-ops, community land trusts, manufactured housing, senior housing, small rental structures, energy efficient dwellings, and cohousing.</p>	<p>Refine and enhance the underwriting criteria of Fannie Mae and Freddie Mac to more effectively serve all housing markets, including implementing the Duty to Serve rule and expanding rather than contracting the housing goals. Changes could include more accurate risk assessment tools and models for borrowers with nontraditional credit histories as well as piloting new and innovative mortgage products to remain abreast of the growing demographic diversity of the American public. Also, guarantee fees and related charges should be reexamined to ensure that they relate only to risk and are not being set arbitrarily high to achieve obscure and unproductive policy or political goals.</p>	<p>[none]</p>
<p>2. Affirmatively further fair housing and equal credit access.</p>	<p>HUD and FHFA can work in tandem to ensure that Fannie and Freddie are effectively serving communities of color and under-served groups. Currently, the GSEs' market penetration in these areas is inadequately low. Both HUD and FHFA have acknowledged that the GSEs have an Affirmatively Furthering Fair Housing (AFFH) obligation and must comply with the Fair Housing Act. Accordingly, the agencies must perform the proper analyses to ensure the GSEs' compliance with the Fair Housing Act.</p>	<p>[none]</p>
<p>3. Ensure countercyclical stability for mortgage credit in times of economic downturns or exogenous shocks that cause private capital to withdraw.</p>	<p>Fannie Mae, Freddie Mac and the Federal Housing Administration (FHA) currently perform a countercyclical role in mortgage finance. This role could be enhanced if the agencies were to adopt underwriting and pricing rules that reflect performance risks and promote healthy, safe and sound lending.</p>	<p>[none]</p>

<p>4. Guarantee that the risks involved in housing finance are fully internalized within the mortgage finance system, including adequate capital levels for private lenders.</p>	<p>To the extent that the GSEs are not already adequately replenishing risk reserves, the Treasury Department could hold some of the GSE repayments to capitalize this reserve pool rather than passing all profits through to general revenues.</p>	<p>[none]</p>
<p>5. Limit excessive risk-taking (as opposed to legitimate innovation).</p>	<p>FHFA already has adequate authority to ensure this goal. Further, the recently enacted Qualified Mortgage Rule (QM) adds an additional level of safety. Presumably, the Qualified Residential Mortgage Rule, which has been proposed by the regulators, will provide additional protections.</p>	<p>[none]</p>
<p>6. Ensure that underwriting and documentation standards are transparent, clear, and consistent so that consumers, investors, and regulators can accurately assess and price risk and regulators can hold institutions accountable.</p>	<p>The CFPB, FHFA, Federal Reserve Board, OCC, HUD, NCUA and the FDIC already have adequate and appropriate authority to protect consumer, investor and lender interests. The FHFA and HUD could work with all of these agencies to further enhance consumer protections and provide useful data and information for improved public assessment.</p>	<p>[none]</p>
<p>7. Employ more sophisticated measures of credit risk appropriate to various underserved borrower groups and invest in and share publicly data and information on the effective reach of loan products by borrower and community demographic characteristics.</p>	<p>FHFA is already partnering with the CFPB on the National Mortgage Database, which will enable reaching this goal. FHFA and HUD could also work to achieve a more robust disclosure of GSE plans and performance data as well as enhanced HMDA updates. Information should be made widely available to the public in language that is easy to understand and in a format that empowers nonprofits, civic organizations and local agencies to better understand lending patterns in their communities.</p>	<p>[none]</p>

<p>8. Establish and enforce servicing rules that balance the financial interests of investors with those of borrowers and that guarantees consistent and high quality servicing performance across institutions.</p>	<p>FHFA has already established high servicing standards for companies that work with the GSEs. FHFA should work with the CFPB to further tighten those standards to more effectively balance consumer and investor interests to promote home retention, avoid unnecessary foreclosures and ensure proper maintenance of vacant and abandoned properties.</p>	<p>[none]</p>
<p>9. Capitalize the National Housing Trust Fund and Capital Magnet Fund as required by statute.</p>	<p>FHFA is already required to fund, and should be contributing to, both programs, but uses the continuing conservatorship status of the GSEs as the justification to avoid doing so.</p>	<p>[none]</p>
<p>10. Support affordable rental housing, including testing new financial products for rental as well as rent-to-own and shared equity homeownership. Also promote comprehensive housing rehabilitation and development, particularly to leverage foreclosed and vacant and abandoned properties to create affordable owner-occupied and rental housing for the benefit of moderate and lower-income families and communities.</p>	<p>The GSEs already have strong and very successful multifamily finance programs, and the FHFA can easily permit further innovation and expansion. FHFA currently has the authority to work in all of these areas but has not yet exercised that authority to improve homeownership and housing opportunities for low and moderate income households.</p>	<p>[none]</p>

All 10 of these goals can be implemented now and no further time should be delayed in achieving them. Moreover, while most of these goals are achievable, they will not necessarily be easy to accomplish. Achieving a greater level of affordable and sustainable lending, for example, would require the GSEs to work closely with lenders to address issues such as credit overlays and lender concerns about buybacks under reps and warrants. It would require assurances of the GSEs to work with lenders to expand the markets in a safe, sound, and profitable manner. But again, a lack of simplicity should not be reason to fail to act.

Finally, this paper is not intended to suggest that more significant legislative changes should not be pursued. In fact, this proposal to act administratively assumes the continuing conservatorship status for Fannie Mae and Freddie Mac. That status is, however, not a preferred long-term solution and should be addressed in some fashion as soon as possible.

**About the author:**

Jim Carr is a housing finance, banking and urban policy consultant. He is also a Senior Fellow with the Center for American Progress and Distinguished Scholar with The Opportunity Agenda. Previously, he served as Chief Business Officer for the National Community Reinvestment Coalition and as Senior Vice President for Financial Innovation, Planning and Research for the Fannie Mae Foundation.

**About the sponsors:**

The Opportunity Agenda launched in 2006 with the mission of building the national will to expand opportunity in America. Focused on moving hearts, minds, and policy over time, the organization works with social justice groups, leaders, and movements to advance solutions that expand opportunity for everyone.

The National Fair Housing Alliance ([www.nationalfairhousing.org](http://www.nationalfairhousing.org)) was founded in 1988, the National Fair Housing Alliance is a consortium of more than 220 private, non-profit fair housing organizations, state and local civil rights agencies, and individuals from throughout the United States. Headquartered in Washington, D.C., NFHA, through comprehensive education, advocacy and enforcement programs, provides equal access to apartments, houses, mortgage loans and insurance policies for all residents of the nation.

The National Association of Real Estate Brokers (NAREB) was formed in 1947 by African-American real estate professionals out of a need to secure the right to equal housing opportunities, regardless of race, creed, or color. For more than 65 years, NAREB has participated in meaningful legal challenges and has supported legislative initiatives that ensure the availability of fair and affordable housing for all Americans.